ANOTHER YEAR OF PROGRESS

CLEVELAND PUBLIC LIBRARY
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CORPORATION FILE

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NATIONAL FOOD STORES

FOOD CENTER STORES, largest regional chain of super markets in St. Louis, were acquired by National Tea Co. in May, 1953, to provide a going base of operations for further expansion into Missouri and down-state Illinois.

St. Louis, Missouri . .

NATIONAL TEA CO.
Annual Report to Stockholders 1953

DIRECTORS AND OFFICERS

Management Report

DIRECTORS

JOHN F. CUNEO *
President of The Cuneo Press, Inc.

JOHN V. FARWELL III *
President of Sanitary Scale Co.

RAYMOND P. FISCHER
Vice President of The Cuneo Press, Inc.

ARTHUR J. HANSEN
Vice President and Branch Manager

CHARLES S. KELLY
Attorney

HARLEY V. McNAMARA *
President

ROBERT V. RASMUSSEN
President, Elmwood Trust

WILLIAM E. RUSSELL
Secretary-Treasurer

ROBERT E. STRAUS
Executive Vice President of The American National Bank and Trust Company of Chicago

* Member of Executive Committee

OFFICERS

HARLEY V. McNAMARA, *President*

ARTHUR J. HANSEN, *Vice President*
NORBERT L. CHAPLICKI, *Vice President*
FRANK J. GRUMAN, *Vice President*
WILLIAM E. RUSSELL, *Secretary-Treasurer*
CHARLES WOODING, *Comptroller*
CLARENCE E. BEARD, *Assistant Treasurer*
WILLIAM T. MORGAN, Jr., *Assistant Secretary*
THEODORE G. HALLBERG, *Assistant Secretary*

TRANSFER AGENTS

Common Shares:

The First National Bank of Chicago
Chicago, Illinois

The Chase National Bank of New York
New York, New York

Preference Shares:

Continental Illinois National Bank & Trust Co.
Chicago, Illinois

J. P. Morgan & Co., Incorporated
New York, New York

REGISTRARS

Common Shares:

Continental Illinois National Bank & Trust Co.
Chicago, Illinois

The New York Trust Company
New York, New York

Preference Shares:

Chemical Bank and Trust Company
New York, New York

American National Bank & Trust Co. of Chicago
Chicago, Illinois

NATIONAL TEA CO.,

for the Year of . . 1953

TO THE STOCKHOLDERS OF NATIONAL TEA CO.:

SALES AND PROFITS

Sales for the year 1953 of $462,281,957 compared with $405,220,594 for 1952, an increase of 14.08%. Sales have shown an increase for the ninth consecutive year and again set a new high record for the Company.

Earnings for the year amounted to $4,897,505, equivalent after preferred dividend requirements to $2.65 per share on 1,707,260 shares presently outstanding common. This compares with a profit of $3,717,769 in 1952 or $2.05 per share on 1,568,360 shares of common.

The branches acquired during 1952 contributed to our increased earnings as we had the benefit of their sales and profits for the entire year of 1953, and the elimination of the unusual expenses in 1952 in acquiring and changing these stores over to our methods which improved their operations. We expect additional improvement in both sales and profits, as we expand their operations further.

DIVIDENDS

In 1953 as in 1952 four quarterly dividends of 40 cents each were paid on the Company's common shares, making a total dividend of $1.60 for each year. Total payment for 1953 was $2,593,899 compared to $2,497,816 for 1952.

Holders of Preference shares received the regular payment of $4.20 per share in quarterly installments of $1.05. Total payment for 1953 was $449,818 compared to $504,000 for 1952.

INVENTORIES

Inventories of merchandise and supplies at December 31, 1953, amounted to $31,858,810 as compared with $27,794,647 at December 31, 1952, an increase of $4,064,163, caused by larger stores and additional warehouse facilities at Kalamazoo, Michigan and St. Louis, Missouri.

GENERAL OFFICES, 1000 NORTH CROSBY ST., CHICAGO, ILLINOIS

1953

Your Business At A Glance . .

A Year Of Progress—

AND ANOTHER ALL TIME HIGH FOR SALES

STORES

	1949	1950	1951	1952	1953
Stores with meat markets	596	591	596	668	664
Conventional grocery stores	59	43	28	97	24
Total stores on December 31	655	634	624	765	688

REAL ESTATE

Our warehouse property at 5555 Archer Avenue continues to be occupied by the Government for defense purposes. The compensation offered by the Government for this property was $516,022 per year, net of taxes, insurance, etc., and the Government has deposited $2,537,110 with the District Court as partial compensation for the five year occupancy. The offer is considered unsatisfactory by the Company and proceedings are pending before the U. S. District Court for final determination.

As at December 31, the Company owned 11 store locations, of which 7 are occupied for store purposes and two are in process of construction for store use and have since been sold and leased back.

During the year the Company replaced the Lansing warehouse which was too small by the purchase of a warehouse in Kalamazoo, Michigan, consisting of approximately 139,000 square feet, which will permit us to service our stores in Kalamazoo, Battle Creek, Lansing, and expand our operations in Western Michigan and Northern Indiana, as well as transferring some stores operated by the Chicago branch in that area.

This warehouse was sold at cost to an insurance company and leased back for a term of 25 years.

FINANCIAL

In May, 1953, the Company, through a subsidiary acquired all of the outstanding capital stock of the Food Center Stores of St. Louis, Missouri and associated companies.

This unit operated 28 stores in St. Louis, Missouri, East St. Louis and Alton, Illinois. Earnings since acquisition have proven very satisfactory.

On February 1, 1954, the Company acquired 98.8% of the outstanding shares of the Capitol Stores of Baton Rouge, Louisiana. This unit operates 28 stores in the State of Louisiana in a rapidly expanding area and is expected to make a substantial addition to the Company's future earnings.

During the year 1953 your Company completed 52 new stores, 20 being relocations and it plans to open approximately 81, of which 22 will be relocations in 1954.

At a special meeting held December 7, 1953, the Preference shareholders authorized an increase in the debt limit of the Company. As a result, on December 14, 1953, the Company borrowed $16,200,000 from two insurance companies on notes due November 1, 1973. The proceeds were used to retire existing long-term debt, pay current bank loans and for additional working capital.

During the year, 33,825 Preference shares 4.2% Series, $100 par value were converted into 135,300 common shares.

Results of Operations for the Calendar Year

	1949	1950	1951	1952	1953
Sales	$274,332,677	$315,218,947	$361,321,293	$405,220,594	$462,281,957
Net profit before federal taxes	7,419,935	9,764,563	7,202,930	8,407,769	10,047,505
Federal taxes—Normal	2,848,000	4,050,000	3,545,000	4,520,000	4,900,000
Excess profits		500,000	50,000	170,000	250,000
Net profit after federal taxes	4,571,935	5,214,563	3,607,930	3,717,769	4,897,505
Earned Per Share Common*	2.89	3.31	2.14	2.05	2.65
Percent of Sales	1.66	1.65	.998	.92	1.06
Dividends paid per share on Common	1.25	1.60	1.60	1.60	1.60
Common Shareholders Investment per Share*	16.09	18.40	18.75	19.28	20.81
Ratio of Current Assets to Current Liabilities	2.48	2.02	2.43	2.17	2.53
Number of Common Shares Outstanding	769,380	1,541,160	1,541,960	1,568,360	1,707,260

*Common stock split two for one on December 20, 1950
Earnings for all years shown on equivalent basis.

Source of Funds:		
Net Profit	$ 4,897,505	
4% Promissory notes issued	16,200,000	
Treasury shares	63,000	
Reserve for Self-insurance	65,637	
		$21,226,142
Disposition:		
Excess of capital expenditures over provision for depreciation, amortization and sales	$5,932,511	
Long-term debt	4,200,000	
Other assets	633,425	
Dividends:		
Preference shares	449,818	
Common shares	2,593,899	
		13,809,653
Increase in Net Current Assets		$ 7,416,489

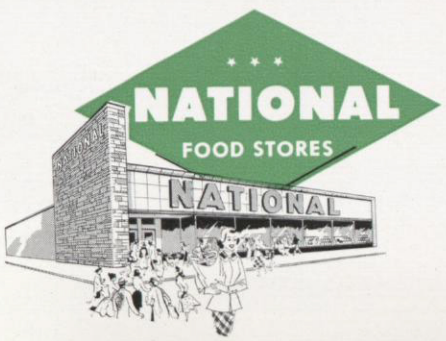
EMPLOYEE RELATIONS

Wages paid to employees in 1953 amounted to $49,688,658 as compared with $43,151,375 in 1952, an increase of $6,537,283, or 15.15%.

Wage rates continued to increase during the last year and while there will be further increases this year, we do not believe they will be in proportion to what they have been in the last two years.

With improved merchandising in our stores and the improvement in the handling of warehouse and transportation facilities, plus the outstanding cooperation we have had from our employees in the past, which I am sure will be continued in the future, we believe our operating cost will be kept within reasonable limits, and we look forward to 1954 confident that we can continue to improve both our sales and profits. To our employees we extend our sincere thanks and appreciation for their cooperation which has made these improved results possible.

H. V. McNamara
President



NATIONAL TEA C

CONSOLIDATED

DECEMBER 31,

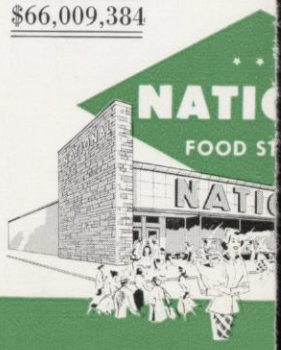
ASSETS

	1953	1952
CURRENT ASSETS:		
Cash	$14,573,907	$11,527,092
Accounts receivable, less reserves of $27,487 and $18,442	1,460,792	1,475,593
Receivable from U. S. Government on account of Archer Avenue, Chicago, property proceedings (Note 4)	1,762,979	1,054,111
Inventories, at lower of cost or market—		
Merchandise	30,811,155	26,736,626
Supplies	1,047,655	1,058,021
Total current assets	$49,656,488	$41,851,443
OTHER ASSETS:		
Prepaid rents, insurance, noncurrent receivables, etc	$ 1,158,046	$ 689,390
Investment in Everywoman's Magazine, at cost	200,000	200,000
Purchase fund for 4.2% preference shares	284,769	120,000
	$ 1,642,815	$ 1,009,390

PLANT AND EQUIPMENT at cost:

	Gross	Reserves		
Land	$ 1,479,276	$ —	$ 1,479,276	$ 1,094,367
Buildings	4,539,615	2,432,505	2,107,110	1,921,125
Fixtures and equipment	31,079,188	13,260,067	17,819,121	15,562,214
	$37,098,079	$15,692,572	$21,405,507	$18,577,706
Leaseholds and leasehold improvements, less amortization			3,145,642	1,884,203
Net excess of cost of investment in consolidated subsidiaries over underlying book values at dates of acquisition—in process of amortization			906,150	(1,049,129)
			$25,457,299	$19,412,780
ARCHER AVENUE, CHICAGO, PROPERTY, at cost, less reserves of $485,966 and $373,959 (taken under condemnation proceedings by U. S. Government—Note 4)			$ 3,623,764	$ 3,735,771
			$80,380,366	$66,009,384

See notes to financial statements.



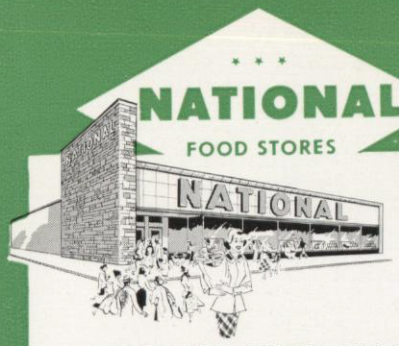
). AND SUBSIDIARIES

BALANCE SHEET

1953 AND 1952

LIABILITIES

	1953	1952
CURRENT LIABILITIES:		
Current maturities on long-term debt	$ —	$ 400,000
Accounts payable	10,840,193	$10,876,540
Accrued liabilities	3,183,570	3,179,639
Federal income and excess profits taxes	5,630,242	4,809,270
Total current liabilities	$19,654,005	$19,265,449
LONG-TERM DEBT, less current maturities included above:		
4% promissory notes due serially 1956 to 1973	$16,200,000	$ —
Long-term debt retired during 1953	—	4,200,000
RESERVE FOR SELF-INSURANCE	$ 370,378	$ 304,741
CAPITAL STOCK AND SURPLUS:		
Preference shares, cumulative, par value $100, authorized 150,000 shares (of which 33,825 converted shares, 4.2% series, are not reissuable). 4.2% convertible series, outstanding 86,175 shares and 120,000 shares	$ 8,617,500	$12,000,000
Common shares, par value $5, authorized 2,100,000 shares (including 344,700 reserved for conversion of preference shares), issued 1,711,760 shares and 1,576,460 shares	8,558,800	7,882,300
Paid-in surplus	6,276,529	3,528,880
Earned surplus (Note 1)	20,729,852	18,876,064
	$44,182,681	$42,287,244
Less—Approximate cost of treasury common shares (Note 3), 4,500 shares in 1953 and 8,100 shares in 1952	26,698	48,050
	$44,155,983	$42,239,194
	$80,380,366	$66,009,384



National Tea Co. and Subsidiaries

STATEMENT OF CONSOLIDATED INCOME

For The Years Ended December 31, 1953 and 1952

	1953	1952
SALES AND OTHER INCOME:		
Sales	$462,281,957	$405,220,594
Profits on disposal of fixed assets, etc.	129,077	169,564
Revenues from Archer Avenue, Chicago, property—net of interest and depreciation (Note 4)	289,296	276,577
	$462,700,330	$405,666,735
COSTS AND EXPENSES:		
Materials and services purchased from others	$385,546,193	$339,900,684
Wages and salaries	49,688,658	43,151,375
Rentals paid for leased properties	5,045,318	4,155,098
Provision for depreciation and amortization	3,074,956	2,516,378
Interest on indebtedness	314,732	70,866
Social security, State, local and miscellaneous taxes	8,982,968	7,464,565
	$452,652,825	$397,258,966
Income before Federal income taxes	$ 10,047,505	$ 8,407,769
Provision for Federal income taxes (including $250,000 in 1953 and $170,000 in 1952 for excess profits tax and after $450,000 reduction in 1953 resulting from subsidiary's operating loss carry forward)	5,150,000	4,690,000
Net income for the year	$ 4,897,505	$ 3,717,769

See notes to financial statements.

STATEMENT OF CONSOLIDATED SURPLUS

For The Year Ended December 31, 1953

PAID-IN SURPLUS

BALANCE AT BEGINNING OF YEAR	$ 3,528,880
Excess of par value of 33,825 preference shares over par value of 135,300 common shares issued in conversion	2,706,000
Excess of option price over carrying value of 3,600 treasury common shares sold to officers and employees	41,649
BALANCE AT END OF YEAR	$ 6,276,529

EARNED SURPLUS

BALANCE AT BEGINNING OF YEAR	$18,876,064
NET INCOME FOR THE YEAR	4,897,505
	$23,773,569
DEDUCTIONS:	
Dividends—	
Preference shares, 4.2% series	$ 449,818
Common shares ($1.60 per share)	2,593,899
	$ 3,043,717
BALANCE AT END OF YEAR (Note 1)	$20,729,852

See notes to financial statements.

AUDITORS' CERTIFICATE

Arthur Andersen & Co

To the Board of Directors, National Tea Co.:

120 South La Salle Street, Chicago 3

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation) AND SUBSIDIARIES as of December 31, 1953, and the related statements of consolidated income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had previously made a similar examination for the year ended December 31, 1952.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and surplus present fairly the financial position of National Tea Co. and Subsidiaries as of December 31, 1953, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois
February 15, 1954

ARTHUR ANDERSEN & CO.

National Tea Co. and Subsidiaries
NOTES TO FINANCIAL STATEMENTS
December 31, 1953

(1) DIVIDEND RESTRICTION: At December 31, 1953, earned surplus of $17,028,580 is restricted as to the payment of cash dividends on and the purchase of preference and common shares; net current assets remaining after giving effect to the payment of dividends or reacquisition of stock must equal at least $20,000,000.

(2) LITIGATION: In February, 1952, a suit was filed by an alleged stockholder against the company, certain directors and officers, and four corporations in which certain of the defendants have ownership or management interests. The suit seeks to set aside a sale of stock by the company to an officer, a stock option granted to an officer, and purchases of merchandise by the company from the four defendant corporations. The plaintiff alleges that these transactions were not reported or disclosed to the stockholders, but secretly benefited certain of the defendants at the expense of the company. The defendants deny the allegations and have filed motions to dismiss the suit. All of the transactions referred to in the suit were reported to the stockholders in proxy statements sent to them during the years 1945 to 1951.

(3) STOCK OPTIONS: At December 31, 1953, the 4,500 common shares in treasury were reserved under option agreements for sale to officers and employees at $17.50 per share. These options are exercisable cumulatively to the maximum of 1,700 shares on or before July 11, 1954, plus 2,800 additional shares at any time during the year ending July 11, 1955.

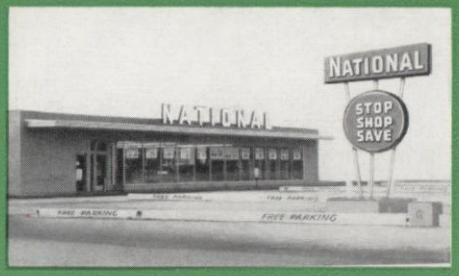
(4) ARCHER AVENUE, CHICAGO, PROPERTY: The Archer Avenue, Chicago, property acquired from the U. S. Government in 1948 for occupancy in 1950 was condemned for use by the Government for defense purposes and possession taken for the period March 16, 1951 to February 15, 1956. The compensation estimated by the Government for the use of the property was $516,022 per year net of taxes, insurance, etc., in respect of which the Government has depositied $2,537,110 with the Clerk of the District Court. This estimate is considered inadequate by the company. The condemnation proceedings are pending before the United States District Court for final determination of the amount of compensation to be paid.

(5) SUBSEQUENT PURCHASE OF ADDITIONAL BUSINESS: On February 1, 1954, the company purchased approximately 99% of the outstanding shares of Capitol Stores, Inc., at a total cost of about $4,000,000. Capitol Stores, Inc. operates 28 stores in the State of Louisiana.

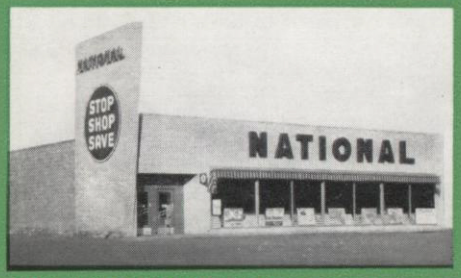
1953 EXPANSION

52 New Nationals Opened

ST. LOUIS BRANCH of National "Food Center" Stores expanded our operations in 1953 with 28 Super Markets and a Meat Packing Plant—6 more new stores are planned for 1954.



MINNEAPOLIS BRANCH opened 14 completely new stores in 1953 and has already made plans for opening 16 more new stores in 1954.



MILWAUKEE BRANCH added 3 new Nationals in 1953 and has provided for further expansion in 1954 with 6 more new stores.

KALAMAZOO BRANCH contributed to Nationals expansion program in 1953 with the opening of 4 new Nationals and plans 6 more new stores in 1954.

NATIONAL MOVES INTO ST. LOUIS IN LARGEST EXPANSION OF 1953

The most significant single expansion of your Company for the year was the acquisition of Food Center Stores Inc. in May, 1953. With Food Center operations, National gained 28 Super Markets, and ample warehouse facilities, plus a meat packing plant in this important Southwestern metropolis. Already the largest regional chain of super markets in the St. Louis area, the Food Center operations provide a desirable base of operations for further expansion into Missouri and downstate Illinois. St. Louis Branch will open its first new store in Decatur. Meantime, modernization has been under way to further improve our St. Louis Stores in line with National's high standards of operations.

NEW NATIONALS OPENED IN 1953 LIKE ADDING ANOTHER CHAIN

There are not many regional Chain Food Store Groups that boast a total of 52 stores—yet your Company, in all its branches, added exactly that many new stores in its aggressive expansion and modernization program in 1953. Of these, 32 stores were opened in new locations where we were not represented before—20 new stores replaced former nearby locations where we have outgrown old locations of long standing.

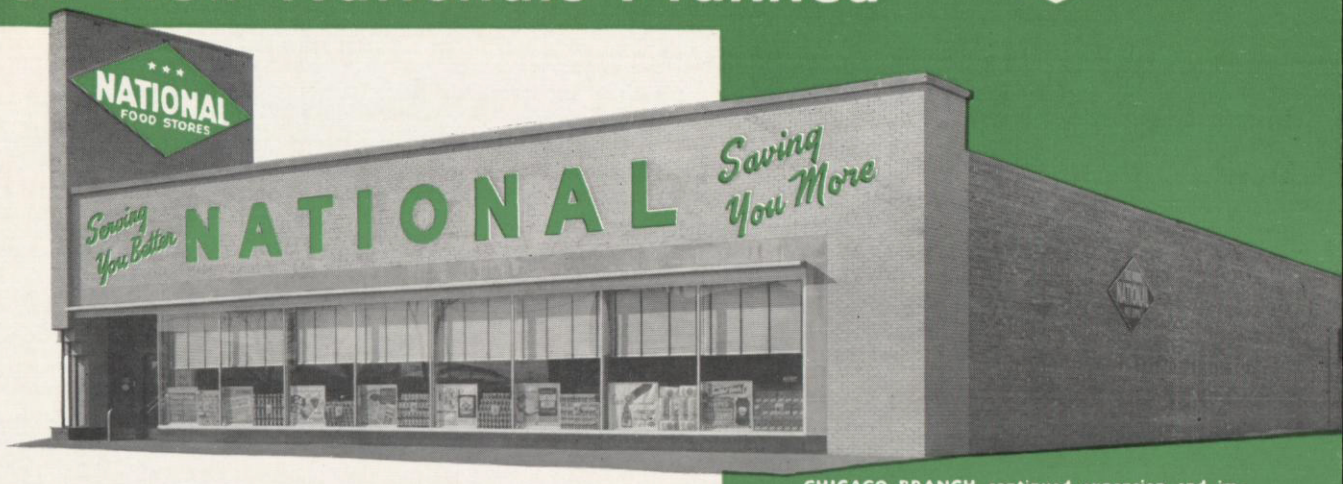
Lansing Branch Operations Moved To Larger Warehouse in Kalamazoo

To facilitate further expansion in Western Michigan and Northern Indiana, as well as to service better our existing stores in this area, larger, more modern warehouse and office buildings were acquired in Kalamazoo in 1953. Our operations in this area were transferred to Kalamazoo September 1st. We now occupy 139,000 square feet of office and warehouse space to service present stores and provide for continued expansion in this area.

and PROGRESS

81 New Nationals Planned

1954



CHICAGO BRANCH continued expansion and improvement with 21 new modern super markets in 1953 and already has plans completed for opening 23 more new stores in 1954.

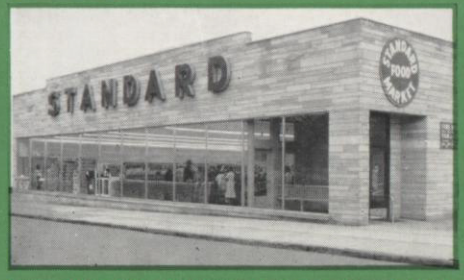
AGGRESSIVE EXPANSION PLANNED FOR ALL BRANCHES FOR 1954

Under construction, or in the blue-print stage at this time, are 81 more new Nationals planned to open in our 8 branches in 1954. Greatest share of this expansion will be concentrated in our newly acquired branches in Detroit, St. Louis, and Kalamazoo. However, our modernization program continues to set pace in our old established markets with all branches contributing. Of the 81 new Nationals planned for 1954, a total of 59 will be new locations not served before, and 22 will replace former locations.

DETROIT BRANCH is fast converting from small to large store operations with 5 giant new super markets opened in 1953 and 21 more big stores planned for 1954.

NATIONAL ENTERS LOUISIANA IN FIRST EXPANSION MOVE OF 1954

On February 1, your Company completed the purchase of Capitol Stores, Inc., of Louisiana. This expansion provides 28 modern super markets in major cities of Louisiana with service warehouses in New Orleans and Baton Rouge. Capitol Stores are second largest in sales volume in the State of Louisiana with great opportunity for expansion into new areas not now occupied. Acquisition of our Louisiana Branch now extends our operations through the heart of the Middle West from Canada to the Gulf.



INDIANAPOLIS BRANCH further entrenched itself with 5 new National Standard Stores in 1953 and plans 3 more in 1954.

NATIONAL SERVES THE MID-WEST

From The Canadian Border To The Gulf of Mexico

BRANCHES in Chicago, Detroit, Indianapolis, Kalamazoo, Milwaukee, Minneapolis, Baton Rouge and St. Louis

STORES in Illinois, Indiana, Iowa, Louisiana, Michigan, Minnesota, Missouri, North Dakota, South Dakota and Wisconsin

National Food Stores in operation as of February 1, 1954.

NATIONAL'S IDEALS

TO BUILD stores that will be a credit to the communities which they serve.

TO FOSTER a fine relationship between our stores and their customers, co-workers and suppliers.

TO MAINTAIN quality and always sell merchandise at a fair price.

TO STRESS honesty and sincerity in our advertising and selling.

TO CONSIDER no sale complete until the items purchased have rendered full satisfaction.

TO MEASURE our success only by the service which we are able to provide for our customers.

SERVING YOU BETTER

SAVING YOU MORE